GOVERNMENT OF INDIA
FINANCE
LOK SABHA

STARRED QUESTION NO:200
ANSWERED ON:03.08.2001
DEEPAK PAREKH COMMITTEE ON UTI
AJAY CHAKRABORTY

Will the Minister of FINANCE be pleased to state:

(a) whether the Deepak Parekh Committee which inquired into theUTI crisis in 1998 had made some recommendations which were not implemented by UTI resulting in a similar crisis recently;

(b) if so, the main recommendations made in this regard; and

(c) the reasons for not implementing these recommendations so far ?

Answer

FINANCE MINISTER (SHRI YASHWANT SINHA)

(a) to (g) : A statement is laid on the Table of the House.

Statement referred to in reply to Lok Sabha Starred QuestionNo. 200 by Shri Ajoy Chakraborty for answer on 3rd August, 2001 regarding Deepak Parekh Committee on UTI

(a) & (b) : The Deepak Parekh Committee constituted by UTI in October1998 submitted its report to UTI on 25th February, 1999.The Board of Trustees of UTI considered the report at its meeting on 23rd March, 1999.The Committee made nineteen recommendations out of which ten have already been implemented, two require an amendment in the UTI Act and the remainder are under implementation. The Parekh Committee recommendations are at Annex.

(c) : According to UTI, since the Parekh Committee hadsuggested a 3-year time frame for making the scheme NAV-linked, they were preparing to do so within this time frame.

Annex referred to in reply to Lok Sabha Starred Question No. 200 byShri Ajoy Chakraborty for answer on 3rd August, 2001 regarding Deepak Parekh Committee on UTI

Already Implemented

Recommendation # 1

Initial contributors to infuse permanent funds of at least Rs.500 crore

Recommendation # 2

Create a Special Unit Scheme 99 (SUS 99)

Transfer PSU stocks & Government subscribes to SUS 99, by issuing dated GoI securities.

Recommendation # 4

Remove tax on income distributed by US 64 and schemes investing more than 50% in equity

Recommendation # 5

Launch of a new UTI scheme for investing in the equity of growth stocks in IT, Pharma and FMCG sectors.

Recommendation # 7(a)

Trustees to assume higher degree of responsibility and exercise greater authority

Recommendation # 9

Chinese walls to be created by appointing separate and independent fund managers for each scheme Inter-scheme transfers to be effected based on independent decisions and requirements of concerned fund managers and at market determined prices

Recommendation # 10

Independent fund manager for US-64 with full responsibility and accountability.

Fund manager should be helped by strong research team and research capability be strengthened.

Recommendation # 11

Investment/disinvestment decisions to be based on research analysts` recommendations - analysts to have authority and responsibility Fund manager to have final authority and responsibility in decision making based on his perception of the market and research inputs.

Recommendation # 15

Dividend distribution policy to be thoroughly revamped to ensure that the Scheme is responsive to changing market conditions. Needs to follow a more conservative approach to build up sufficient reserves during periods of good performance. As a rule, dividend needs to be curtailed when there is inadequate income.

Recommendation # 16

The rate of return offered to investors to be reviewed on a periodic basis.

Already considered for implementation

Recommendation # 3

Strategic sale of significant equity holdings by negotiation to the highest bidder, wherever feasible

Recommendation # 7(b)

Increase in remuneration of Trustees and publication of attendance record of Trustees in Annual Report

Recommendation # 12

Focus on small investors to be strengthened and tilt towards corporate investors reduced.

Recommendation # 13

Make US-64 NAV-driven in three years

Recommendation # 14

Spread between sale and repurchase prices be gradually increased to deter short term investors

Recommendation # 17

Portfolio Composition to be changed to provide for more weightage to debt in US-64 portfolio consistent with Scheme objectives Needs to happen without US-64 to resort to selling large parts of equity portfolio in the market

Recommendation # 18

Operations of US-64 be brought under SEBI preview at the earliest.This would ensure transparency to unitholders and would significantly enhance investor confidence.

Recommendation # 19

To commission an independent professional firm for detailed review of asset management processes including back office, inter scheme transfer and investor servicing.

No Immediate Action : Requires amendment in UTI Act

Recommendation # 6

Increase size of UTI Board to 15, with additional 5 members being co-opted by the Board.

Recommendation # 8

Separate Asset Management Company for US-64 with an independent Board of Directors.